

Discussion of Doiron & Gørgens

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Outline

- Question: how much do past labor market outcomes affect an individual's current state?
- Approach: using a random effects model, D&G estimate the impact of the number and duration of previous spells on transitions.
- New contributions: 1989-94 panel (which spans a recession), a rich set of individual controls, allowing for 3 labor market states.

What are Policymakers Doing?

Which of these quotes is right?

- “Tonight’s statement contains great initiatives; I believe historic initiatives. Measures big enough to kick-start the economy and get things going. Big enough to get people back to work. And big enough to stir the imagination.”
(Paul Keating, launching the *One Nation* statement, 26 Feb 1992)
- “no major policy changes were implemented during the time period under study, 1989-1994”
(D&G p5)

Treatment of Other States

- High school = not in sample
 - During this period, more people were completing high school, because the labor market was so awful.
 - Need to discuss how this would bias the results.
- Crime = out of the labor force
 - A fall in the returns to legal activities should increase the returns to illegal activities. If there is an investment cost to crime (joining the right gang, buying crowbars, etc), then this will look like state dependence in the O state.

Treatment of Other States

- University = out of the labor force
 - During the early-1990s, I thought I was doing a university degree during the year, and working summer jobs.
 - But I now realise I was just *state dependent*.
- Treatment of school, crime & university must matter a lot (eg. university+crime \approx 30% of young people)
- Solution: more sensitivity checks/controls.

Multiple hypothesis testing

- The authors test about 220 hypotheses in Table 2.
- Those coefficients with $p < 0.05$ are asterisked.
- If there are no systematic patterns in the data, we should expect to see 11 asterisks in the table.
- Solution: consider some sort of Bonferroni or Scheffe adjustment.

Treatment of individual heterogeneity

- A conservative approach here would be to use fixed effects, exploiting only within-person variation.
- Why not test the robustness of the conclusions to this? (It would also allow the omission of many of the demographic controls.)
- Given the absence of person fixed effects, the current language is a smidgin too strong, eg. “It is worth noting that since our model includes random effects, these findings cannot be interpreted simply as coming from unobserved heterogeneity.” (D&G, pp14-15).

Policy Simulations

- D&G ask: what if the recession didn't happen? To do this, they assign everyone the average national youth unemployment rate for 1989.
- But this isn't the absence of a recession. This is both: (a) no recession, and (b) no regions of high unemployment.
- Solution: If we think neighbourhoods matter, using your local unemployment rate in 1989 would be better.

Policy Simulations

- The “no recession” experiment also predicts out-of-sample. Young people were probably more state-dependent than usual in the period 1989-1994 *because* labor market conditions were bad.
- A similar issue also applies to the job-finding policy experiments.
- These implicitly assume that the subsequent outcomes for a person who *chooses* to move from U to E can inform us about a government policy that gives a job to a U person.
- Not surprisingly, they get very big long-term effects from this policy simulation (U rate down 14%). Is this believable?